STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

Illinois Commerce Commission On Its Own Motion v. The Peoples Gas Light and Coke Company Proposal to revise Riders SVT, AGG Rider 2, Terms and Conditions, and Table of Contents.	))))))))))))	Docket No. 01-0470

REPLY BRIEF OF THE PEOPLES GAS LIGHT AND COKE COMPANY

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Reply Brief of The Peoples Gas Light and Coke Company

Pursuant to Section 200.800 of the Illinois Commerce Commission's ("Commission") Rules of Practice (83 Ill. Admin. Code §200.800) and the schedule and procedure established by the Administrative Law Judges on October 23, 2001, The Peoples Gas Light and Coke Company ("Respondent" or "Peoples Gas") hereby submits its Reply Brief in the above-captioned proceeding.

I. Overview

On November 20, 2001, Respondent filed its Initial Brief in the above-captioned proceeding in support of proposed revisions to its existing small volume customer transportation program, known as Choices For You[sm] (the

"Program"). Respondent's May 16, 2001 filing, which is the subject of the instant proceeding, included proposed revisions to the Program, which currently serves small volume Service Classification No. 2 ("Rate 2") customers, as well as extending its availability, on a phased-in basis, to small volume residential customers served under Peoples Gas' Service Classification No. 1 ("Rate 1"). Generally, Staff and intervenors do not oppose the Program, but they have proposed various modifications to it. Respondent received initial briefs opposing certain elements of the Program from: Commission Staff; The Citizens Utility Board and The Illinois Attorney General's Office ("Governmental and Consumer Intervenors" or "GCI"); The New Power Company ("New Power"); Dominion Retail, Inc. ("Dominion"); MidAmerican Energy Company ("MEC"); The National Energy Marketers Association ("NEM"); and the Illinois Industrial Energy Consumers ("IIEC"). To a considerable extent, Respondent's Initial Brief addressed the arguments contained in the Staff and intervenor briefs, and those arguments will not be repeated in this Reply Brief.

As detailed in its Initial Brief, Respondent's evidence in the instant proceeding amply satisfied its burden under Section 9-201 of the Public Utilities Act of showing that its proposed rates and services are just and reasonable. Neither Staff's nor intervenors' evidence or the arguments in their initial briefs overcomes Respondent's showing. Peoples Gas' proposed amendments to and expansion of the Choices For You^{sm} Program, as filed by Respondent with certain revisions proposed by Respondent during the proceeding, should be approved. Respondent's proposals are fully supported by the record.

II. Rider SVT, Small Volume Customer Transportation Service

A. Respondent's Proposed Billing Requirements Are Just and Reasonable.

Respondent showed why its existing restriction on supplier single billing is appropriate and should be retained. Resp. In. Br., pp. 5-16. Specifically, Rider SVT currently provides that a Rider SVT customer cannot stipulate that its utility bill be sent to an SVT Supplier. Staff and several intervenors argued that this requirement should be eliminated, and there should be some form of supplier single billing. The principal arguments advanced by Staff and intervenors are: (1) supplier single billing is convenient for customers, particularly when the same supplier provides gas and electric commodity service to a customer (Staff In. Br., p. 4; New Power In. Br., p. 14; NEM In. Br., pp. 3-5); (2) supplier single billing assists the supplier in building customer relationships (Staff In. Br., p. 4; New Power In. Br., p. 15; MEC In. Br., pp. 2-3); (3) Respondent's large volume transportation customers can designate an agent to receive their utility bill (Staff In. Br., p. 3; New Power In. Br., pp. 15-16; MEC In. Br., p. 2); (4) electric utilities must offer supplier single billing (Staff In. Br., p. 3; New Power In. Br., p. 15); and (5) Staff's account agency single billing proposal is easy to implement (Staff In. Br., pp. 4-5). These arguments should be rejected for the following reasons.

1. Customer Convenience

As a prefatory matter, Respondent assumes, *arguendo*, that the arguments in the case are truly advanced in the interest of customer, and not supplier, convenience. First, as Staff witness Eric P. Schlaf agreed (R. 321-322), nothing prevents an SVT Supplier from sending a customer a single bill for the various commodities and other services that the customer may purchase from the SVT Supplier. In other words, a customer purchasing both gas and electricity from a given SVT Supplier can receive a bill from that supplier that includes the gas and electric commodity charges as well as any marketing materials, notices of frequent flier miles or anything else that the SVT Supplier may wish to include with its bill.

Second, it is unclear that it would be a simple exercise to combine gas and electric utility bills with gas and electric commodity service. The logistical complication is that, as Dr. Schlaf agreed, Respondent's customers receive only gas service from Respondent and electric utility service from another utility. The customer's electric utility may well bill those customers on a different billing cycle from Respondent and, thus, have different due dates for its utility charges than the due date for Respondent's charges. R. 321. Combining the two different utility bills could pose practical problems or could sharply diminish the amount of time that the customer would otherwise have to pay one or the other of its utility bills.

Finally, while customers may desire the convenience of a single bill, there are three considerations that this simplistic conclusion overlooks. One, Respondent's small volume customers indicated, overwhelmingly, that their preference was to receive a single bill <u>from</u> <u>the</u> <u>utility</u>. Two, Staff and intervenors have not squared detailed Commission policies concerning billing practices with their supplier single billing proposals. Three, Staff and intervenors have not explained how the policy and legal concerns articulated by the Staff in its report to the Commission about the use of agents by customers can be mitigated through their supplier single billing proposals.

2. Building Customer Relationships

There is no disagreement that regular communication with customers, including through periodic billing, is an effective way to build and foster customer relationships. What Staff and intervenors ignore is that SVT Suppliers are not the only entities interested in customer relationships. Respondent also has an interest in maintaining customer relationships. Consistent with this, its billing proposal does not preclude suppliers from issuing a single bill. The fundamental difference between Respondent's single billing service (the "LDC Billing Option") and the Staff and intervenor proposed supplier single billing services is that the LDC Billing Option is, as the name suggests, optional. Under Respondent's proposals, no SVT Supplier would be forced to relinquish billing customers for its charges. By contrast, supplier single billing proposals would force Respondent to sever this particular point of communication with its customers.

3. Large Volume Customer Billing

There are important differences between the large volume and small volume programs and between the customers served under those programs that can support different billing regimes. Notably, SVT Suppliers have substantially less day-to-day gas management responsibilities than suppliers operating under the large volume programs and, thus, have less operational need to receive the customer bill. Also, the customers to be served under the Program are relatively less sophisticated energy consumers. Resp. Ex. A, p. 10.

- The Commission has recognized this fact. The Peoples Gas Light and Coke Company, Order, dated August 12, 1998, in Ill.C.C. Docket 97-0297 [the Commission stated that it "is very concerned about the information that will be provided to small-volume customers, as compared to customers taking service under [Peoples Gas'] pre-Pilot transportation programs who tend to be more sophisticated utility customers." slip op., p. 10].
- Reports to the Commission have recognized this fact. In the January 2000 Report of the Millennium Review Committee to the Commission, the Report stated, on page 54, that "[m]ost small commercial and residential customers are currently unsophisticated and confused about changes underway in the utility industries."
- The General Assembly has recognized this fact by its inclusion in the Electric Service Customer Choice and Rate Relief Law of 1997 (the "Electric Open Access Law") of enhanced protections for small commercial and residential customers and the imposition of additional requirements on suppliers serving these customers. 220 ILCS 5/16-103(c); 16-103(d); 16-115(d)(6); 16-115A(d); 16-115A(e).
- The Staff has recognized this fact in this proceeding by proposing that SVT Suppliers wishing to serve residential customers obtain a "Letter of Agency" from those customers. ICC Staff Ex. 3.0, pp. 28-29.
- The Staff previously acknowledged this issue. In Docket No. 99-0013 (ICC Staff Ex. 1.00, p. 10), Dr. Thomas Kennedy testified on behalf of the

Staff that tariffed services should not be unbundled in conjunction with the unbundling of delivery services because “[u]nsophisticated sales service customers may not be well-suited to take unbundled services.”[1]

- A retail marketer, Enron Energy Services, has recognized that small volume customers are less sophisticated. In connection with the certification of alternative retail electric suppliers, Ms. Sue Nord testified (on page 3 of her rebuttal testimony), in Docket No. 98-0544, that the Commission did not need heightened scrutiny in the certification process for customers with maximum electric demands of one megawatt or greater. She stated that “[s]uch customers are large, sophisticated industrial customers who do not need the same protections as residential or small commercial customers.”[1]

Respondent believes that there are sufficient distinctions between the large and small volume programs to warrant a different billing approach. However, were the Commission to conclude that such distinctions did not warrant the different approach adopted by Respondent, then the appropriate response, in light of the Commission’s billing policies and Staff’s expressed legal and policy concerns about agents, would be to direct Respondent to change its billing policy applicable to large volume customers.

4. Electric Utility Single Bill Requirements

Analogies to the Electric Open Access Law can be instructive, but caution

[1] The Commission or Administrative Law Judges may take administrative notice of any matters contained in the record of other docketed Commission proceedings. 83 Ill. Admin. Code §200.640(a)(2).

must be exercised before simply transferring to gas utilities requirements that the General Assembly adopted for electric utilities. The principal flaw with imposing the supplier single billing requirement on gas utilities is that it is not accompanied by the regulatory and consumer protection mandates that were also embodied in the legislation. As Respondent explained, the lack of Commission jurisdiction over gas suppliers is at the root of most of its legal and policy concerns about the use of agents by utility customers. Resp. In. Br., pp. 9-12, 14-15; ICC Staff Ex. 3.0, Attach. 1, pp. 6-9.

5. Implementation

As a prefatory matter, Respondent notes that it does not support supplier single billing through account agency. Moreover, if the Commission requires it to accommodate such billing, it does not support a requirement that it send billing information electronically. Nonetheless, Respondent concurs with the Staff that it would be easy to implement account agency billing if the only requirement were for Respondent to change the billing address from the customer's address to the SVT Supplier's address. However, that is not the extent of the Staff's proposal. The Staff would also require that billing information be sent electronically to SVT Suppliers -- a requirement not imposed on electric utilities, nor a requirement that Staff has yet advocated in a docketed proceeding for electric utilities. R. 315. Respondent opposes this requirement and notes that it could not implement electronic transfer of billing information on May 1, 2002.

In sum, Respondent's proposal to limit the Rider SVT customer's ability to direct that its bill be sent to an SVT Supplier is fully supported in the record and should be approved. The form of supplier single billing ordered by the Commission in Northern Illinois Gas Company d/b/a Nicor Gas Company ("Nicor Gas") is at odds with the record in this proceeding. Supplier single billing proposals in the instant proceeding are, for the reasons stated above and in Respondent's Initial Brief, flawed, inconsistent with Commission policies and do not address the concerns about agents advanced, but not addressed, by the Staff.

B. If the Commission Mandates Supplier Single Billing, All Such Billing Should Be Conducted Pursuant to Respondent's Proposed Rider SBO.

For the reasons set forth in its Initial Brief, in Section II.A of this Reply Brief and the testimony of its witness Debra Egelhoff, Respondent opposes the imposition of a requirement that it implement supplier single billing. However, if the Commission requires it to do so, all such billing should be conducted pursuant to proposed Rider SBO, as set forth in Ms. Egelhoff's rebuttal testimony and proposed to be revised in her surrebuttal testimony. Resp. In. Br., pp. 16-20; *also see*, Resp. Ex. C, pp. 27-33; Resp. Ex. F, pp. 11-25; Resp. Ex. 6. As revised, proposed Rider SBO strikes a reasonable balance between addressing concerns raised by Staff and intervenors and preserving an administratively manageable way for Respondent to bill and be paid for its services. Resp. Ex. F, p. 3. The principal objection to Respondent's proposed Rider SBO, as modified, is to the requirement that customers affirmatively choose to receive Rider SBO service. Staff In. Br., pp. 5-6[2]; New Power In. Br., pp. 25-26; MEC In. Br., p. 8.

[2] Staff stated that it had two concerns about the rider, but, Respondent's reading of Staff's initial brief is that the only issue was the affirmative billing choice requirement.

New Power, and, to a lesser extent, MEC, raised other issues, some of which are made moot by concessions in Ms. Egelhoff's surrebuttal testimony.

1. Affirmative Choice Requirement

It is critically important to Respondent that the choice to receive supplier single billing service is the customer's choice and not the SVT Supplier's choice, particularly given evidence of customer preferences about billing, *viz*., Respondent's small volume customers overwhelmingly supported receiving a single bill from the utility. Resp. Ex. A, p. 10; Resp. Ex. C, p. 23; Resp. Ex. F, pp. 11-12. However, Respondent addressed this issue at length in its testimony and Initial Brief, and it will not repeat those arguments here. Suffice it to say, Respondent questions whether signing a contract with an SVT Supplier or agreeing by telephone to purchase gas supply from an SVT Supplier is tantamount to choosing to receive the utility bill from the SVT Supplier. Resp. Ex. F, pp. 12, 14. It is unclear to Respondent why Staff and intervenors are, on the one hand, enthused about offering customers the opportunity to purchase supply from an alternative supplier, but, on the other hand, appear afraid to offer the customer a specific choice of billing options. If New Power actually believed its gratuitous and unsupported comment about a "potentially outdated and obsolete [utility] billing system" (New Power In. Br., p. 26), one would think it would have no concerns whatsoever about customers choosing to receive billing service from the utility.

2. Other Rider SBO Issues

First, New Power and MEC stated that SVT Suppliers using Rider SBO should not be required to collect past due utility charges for bundled service. New Power In. Br., pp. 19, 22-24; MEC In. Br., pp. 5-6. While Respondent is curious why SVT Suppliers' support for the customer convenience associated with a single bill would lead them to recommend that any customer with outstanding bundled service charges continue to receive two bills, Ms. Egelhoff proposed a means for the SVT Supplier to have a "clean slate" when it begins billing a customer pursuant to Rider SBO. A customer that has arrearages with Respondent would not be eligible for Rider SBO service. Resp. Ex. F, p. 16. Dr. Schlaf stated that, at least for purpose of a pilot program, it may be worthwhile to address this issue in the way proposed by Respondent. R. 317. Otherwise, Respondent would effectively be forced to have two accounting systems for customers. One, it would need to track two sets of arrearages -- pre-Rider SBO and post-Rider SBO. Two, it would need to have two cash posting systems, one for payments associated with pre-Rider SBO payments and one for post-Rider SBO payments received from the SVT Supplier. That is patently inefficient. Resp. Ex. F, pp. 18, 20.

On a somewhat related point, MEC stated that Respondent should clarify its cash posting logic in Rider SBO such that the order in which partial payments is applied is: (a) past due utility charges, (b) current utility charges, (c) past due supplier charges, and (d) current supplier charges. MEC In. Br., pp. 6-7. As Ms. Egelhoff explained, Respondent agrees that partial payments should first be applied to utility charges (parts (a) and (b) of MEC's proposal). Resp. Ex. F, p. 15. However, Respondent does not understand why or how it would determine, under parts (c) and (d) of MEC's proposal, how the SVT Supplier applies Rider SBO payments in excess of that needed to cover utility charges, as only an amount sufficient to cover utility charges would be remitted to Respondent. Given the statutory requirements applicable to electric utilities concerning single billing, including cash posting provisions (220 ILCS 5/16-118(b)), and the Commission's jurisdiction over alternative retail electric suppliers, Respondent can understand why it may have been appropriate to address this in what MEC called the "Uniformity" docket, but it is not evident why Rider SBO should determine how SVT Suppliers apply payments to their own charges. While Respondent does not oppose items (c) and (d) of MEC's proposed cash posting logic, it does not see how it or the Commission would enforce them against SVT Suppliers.

Second, New Power argued that the Commission should require Respondent to use internet-based communications for the electronic transmission of information. New Power In. Br., p. 19. Respondent has an electronic bulletin board that SVT Suppliers, of which New Power is not one, and suppliers under the large volume program currently use. There is no basis for the Commission to mandate that Respondent develop or purchase a different system when there is no evidence whatsoever that the current system is inadequate or even that existing suppliers who use that system are dissatisfied with it. Resp. Ex. F, pp. 20-21.

Third, New Power stated that the language pertaining to testing electronic communications should be deleted because Respondent did not explain "in detail" the requirements and timing for such testing. New Power In. Br., p. 20. Given that the terms of the supplier single billing tariff, assuming such a tariff is even required, have not been established and, thus, the magnitude of the specific technical requirements of the data exchange have not been determined, it is impossible to explain "in detail" the testing process or timing. Rather than arbitrarily pluck a number out of the air (seven days was New Power witness Becky Merola's proposal (New Power Ex. 2.0, Attach. A, Sec. B)), Respondent would not place procedures or a deadline in the tariff that may well not be appropriate for all testing or for all suppliers. Resp. Ex. F, p. 21.

Fourth, New Power complained that Respondent failed to address "the receivables risk." New Power In. Br., p. 20. Respondent is baffled by this statement. If SVT Suppliers do not bill for any past due bundled service charges and if SVT Suppliers are not required to remit payment to Respondent until they have received payment from the customer -- proposals that Respondent agreed to accommodate by requiring that customers be current to be eligible for Rider SBO service and by offering a second payment option -- what receivables risk does the SVT Supplier bear? Resp. Ex. F, pp. 14-15,17-18, 24. There is no "receivables risk" because SVT Suppliers are not purchasing from Respondent or assuming responsibility for receivables.

Fifth, New Power stated that "there is no mention of the submission of usage information along with billing information." New Power In. Br., p. 20.

While it is true that the draft tariff did not include such a statement, Respondent considered it obvious that the usage information, which is an essential element of its billing information, would be provided with the other billing information. Ms Egelhoff affirmed this in her surrebuttal testimony. Resp. Ex. F, p. 21.

Sixth, New Power and MEC complained that Respondent did not provide for compensation if the SVT Supplier sends utility bill inserts. New Power In. Br., pp. 21-22; MEC In. Br., p. 7. The issue is moot. Respondent stated that it would send any inserts separately to the customer and not request or require the SVT Supplier to do so. Resp. Ex. F, p. 21.

Seventh, New Power requested that the SVT Suppliers have five business days from the receipt of payment from the customer to remit payment to Respondent. New Power also incorrectly stated that Respondent's proposal would require payment on the same business day it receives payment from the customer. New Power In. Br., p. 24. In fact, Respondent's proposal was that, if the SVT Supplier selects the payment option under which it remits payment after receiving it from the customer, that it do so one business day after receipt. Resp. Ex. F, pp. 14-15. Dr. Schlaf stated that he could accept Respondent's proposal. R. 319-320. The five-business day lag proposed by New Power is untenable. Under the Commission's rules, Rate 1 customers are generally required to submit payment to Respondent twenty-one days after the bill is issued, after which late payment charges may apply. It appears that New Power's proposal could extend this an additional five to seven calendar days. If Respondent is compelled to give up control of billing its customers, then it should at least be assured that it can continue to be paid on the same time frame, or with no more than one business day lag, that is provided by the Commission. Resp. Ex. F, pp. 15-16.

Eighth, New Power's initial brief repeats a misstatement from Ms. Merola's rebuttal testimony (New Power Ex. 2.0, p. 21), namely that Respondent would require an SVT Supplier to provide Respondent a reason why it terminated gas supply or billing service to a customer. New Power In. Br., p. 26. Respondent does not understand the basis for this statement. Respondent only requires SVT Suppliers to advise it of enrollment and termination from pools. It has never required and does not plan to require an explanation of why a customer is being terminated. Resp. Ex. F, p. 22.

Ninth, New Power objects to Respondent's statement (Resp. Ex. F, p. 23) that, for purposes of determining the level of performance assurance, per a formula proposed by New Power, Respondent would make the good faith estimate of the obligation to Respondent. New Power In. Br., p. 27. New Power has not offered an alternative, and Respondent is puzzled why the entity with the information needed to compute the expected billings to the SVT Supplier, *i.e.*, Peoples Gas, would not make the calculation. Obviously, the SVT Supplier would have recourse to the Commission if it disagreed with the determination.

Finally, New Power states that the Commission should direct Respondent to develop a credit to reflect the alleged value to Respondent of the SVT Supplier preparing and sending supplier single bills. New Power In. Br., p. 18. Respondent explained that it is unclear that it will realize any savings if the supplier issues a bill inclusive of Respondent's charges. One, Respondent would have to incur costs to modify its system to send the bill-ready charges and billing information to the SVT Supplier and to accept payment information back from the SVT Supplier. Two, Respondent would continue to perform every function of billing other than regular bill print. Three, Respondent would, if it were required to put customers with past due balances on Rider SBO, be required to continue collections efforts on past due amounts at the time the customer moved to the Rider SBO billing service. Additionally Respondent may choose to embark on its own collections efforts on arrearages created after the customer begins receiving bills pursuant to Rider SBO if the SVT Supplier is unable to make collections in a timely manner. Also, Respondent would, if it were required to put customers with past due balances on Rider SBO, incur additional costs to track two separate arrearage schedules -- pre-supplier billing and post-supplier billing. Four, the cash posting proposal proposed by Dr. Schlaf -- payment remitted by the supplier to Respondent would be applied only to distribution charges -- differs from Respondent's current practice of posting payments to the oldest outstanding arrearage. In addition to tracking two separate arrearages, Respondent would need to develop two different cash posting systems. Five, Respondent will have to continue to mail Commission-required mailings to customers. Six, if Ms. Merola's five-business day remittance proposal were adopted, there would be a carrying cost associated with it. Finally, there are some communications, such as disconnection notices, that Respondent will continue to send to customers directly. Resp. Ex. F, pp. 19-20. In sum, there is no basis for expecting any savings to result were the Commission to require Respondent to implement Rider SBO.

C. No Substantial Issues Were Raised Concerning Respondent's LDC Billing Option Service.

Respondent offers, as a non-tariff, non-utility service, a single billing service that it calls the LDC Billing Option. Limited questions were raised about this service.

First, Respondent stated that it would include the charges for this service in its tariff (Resp. Ex. C, p. 31), so the tariff issue raised by GCI is moot. GCI In. Br., p. 5. The cost support for the LDC Billing Option charges is discussed in Respondent's Initial Brief, pages 41-42, and in Section III.C.1, *infra*.

Second, New Power sought clarification about the number of rate codes that could be used. New Power In. Br., p. 28. There is no limit on the number of "rate codes" that an SVT Supplier may use. Instead, the applicable limits are on the number of lines (up to seven billing lines and five message lines) that may be included on a given bill. R. 93; Resp. Ex. F, p. 26. Presumably, the "hundreds" of rate codes referenced by New Power simply means that New Power may have many different prices in effect for the entire group of customers it is serving and that those prices may change from month to month. Under the LDC Billing Option, every New Power customer could be subject to a different "rate code," but, on any given bill, New Power could only include seven lines of charges.

Third, Respondent would not necessarily be opposed to developing the rate-ready billing service proposed by Dominion (Dominion In. Br., pp. 4-7), but, prior to Dominion's request, Respondent has not experienced any demand for such a service. Clearly there would be costs associated with developing and implementing such a system, and the proposed LDC Billing Option charges do not include those costs. Respondent's understanding of rate-ready billing systems is that they are relatively rigid, and they require the supplier to divulge what it may consider to be confidential pricing information. Resp. Ex. F, p. 27. Based on the limited record in this proceeding and the optional nature of the LDC Billing Option, it would be inappropriate for the Commission to direct Respondent to offer a rate-ready version of the LDC Billing Option.

D. Phased-In Enrollment Is Reasonable for Rate 1 Customers.

Respondent proposed to phase-in the availability of the Program for Rate 1 customers in the manner and for the reasons set forth in Ms. Egelhoff's and David Wear's testimony. Resp. In. Br., pp. 20-21. There are sound gas supply planning reasons for this gradual approach. Resp. Ex. B, pp. 5-6; Resp. Ex. D, pp. 6-7. As gas supply and capacity contracts terminate, the need for enrollment restrictions will diminish. Removing the limits would expose retail sales customers to paying for capacity that exceeds their requirements, and open enrollment should be rejected. Before addressing certain intervenors' opposition to enrollment limits, Respondent will first respond to some confusion concerning the tariff language.

Staff and New Power each argued that Respondent should have no discretion to raise enrollment limits or suspend enrollment, absent a tariff filing. Staff In Br., pp. 14-15; New Power In. Br., p. 7. This issue is moot. While Respondent continues to believe that the use of an informational filing to raise enrollment limits would be efficient and reasonable, Ms. Egelhoff stated that Respondent accepted Staff witness Charles C.S. Iannello's proposal to change enrollment limits through a tariff filing. Resp. Ex. F, p. 9. Ms. Egelhoff also clarified that the "discretion" in Rider SVT was not to stop enrollment before the limit was reached but to allow the limit to be exceeded. Resp. Ex. C, p. 19. Having accepted Mr. Iannello's proposal that any increase in the enrollment limit be through a tariff filing, Respondent has relinquished its proposal to use discretion to waive the enrollment limit. It is Respondent's intention to enforce any enrollment limits strictly and increase such limits only through a filing pursuant to Section 9-201 of the Public Utilities Act.

New Power, NEM and GCI opposed Respondent's proposed enrollment limits. New Power In. Br., pp. 5-6; NEM In. Br., p. 3; GCI In. Br., pp. 5-6. Staff did not oppose the enrollment limits. Staff In. Br., p. 15.

New Power makes the disingenuous claim that the enrollment limits are contrary to experience because 13.5% of Rate 2 customers participate in the Program and about 9% of Rate 1 customers would be eligible in the first year of the expanded Program. New Power In. Br., p. 5. What New Power ignores is that, for Rate 2 customers, the Program has been in effect for four years. New Power has no support for the implication that levels of Rate 1 participation in the first year will be comparable to Rate 2 participation after four years. In other words, the enrollment limits are not contrary to experience. New Power's second point (New Power In. Br., p. 6) seems to be that it is miffed that only participating SVT Suppliers, of which it is not one, were invited to meetings at which

Respondent discussed enrollment limits and other proposed changes to the Program that are the subject of the instant proceeding. New Power's unhappiness on this score is hardly a basis for rejecting enrollment limits that Respondent showed to be the reasonable product of gas supply considerations.

NEM opposed enrollment limits because it believes limits would inhibit suppliers' ability to achieve economies of scale. NEM In. Br., p. 3. NEM offered nothing to which one can reply. It did not address Respondent's evidence about the need for limits. It cited no evidence in support of its claim that the limits would prevent a supplier from enjoying economies of scale. In short, there is no support for NEM's position, and it should be rejected.

GCI introduced, in its brief, the novel proposal that the stranded cost issues raised by open enrollment could be addressed by requiring SVT Suppliers to accept assignment of Respondent's interstate pipeline capacity. GCI In. Br., pp. 5-6. Post-hearing briefs are not the proper forum for arguing about whether mandatory capacity assignment is a viable solution for stranded costs that may result from open enrollment. Nothing in the record addresses how this would be accomplished. Respondent holds many different types of capacity (basic transportation, enhanced transportation, pipeline storage, pipeline storage with no-notice rights, pipeline storage and transportation with short-notice rights, pipeline services with various point and quantity restrictions, *etc*.) on several different pipelines in addition to services with non-pipeline providers. What capacity would be assigned? What quantity would be assigned? Would it be subject to recall? What recall conditions would apply? How often would assignment take place? Are there any concerns about the Federal Energy Regulatory Commission's shipper-must-have-title rule that must be addressed? These are but a few of the obvious questions that the glib suggestion to assign capacity raises. In sum, there is no record support for pairing open enrollment with mandatory capacity assignment.

E. The Sixty-Day Grace Period Is Appropriate and the Related Temporary Stay Requirement Is a Reasonable Planning Tool.

Under the current Program, when a Rider SVT customer returns to sales service, the customer must remain on sales service for twelve months (the "temporary stay requirement"). Respondent proposed to relax this requirement by introducing a grace period, during which the customer can sign up with a new SVT Supplier and avoid the temporary stay, and it would not impose the stay requirement if the enrollment limit had not been reached. New Power opposed the temporary stay requirement. It proposed that: (a) it should be eliminated and, if not eliminated, the grace period should be increased to ninety days, and (b) the Commission should order Respondent to "implement a competitive bidding process for default service." New Power In. Br., pp. 8-13.

Both the proposed sixty-day grace period and the temporary stay requirement are amply supported in the record and should be approved. Resp. In. Br., pp. 21-23. As with enrollment limits, the temporary stay requirement provides some measure of gas supply planning certainty and mitigates the potentially harmful effects of customers switching to and from transportation service. New Power apparently understands the costs associated with customers leaving its gas supply service, as it reportedly charges $30 to Georgia customers leaving it prior to the contract termination date. Restructuring Today, October 18, 2001, p. 3.

The sixty-day grace period is reasonable and increasing it to ninety days is not warranted. Respondent reviewed comparable grace periods for other Illinois gas utilities and found time periods ranging from forty-five days to three months. Resp. Ex. F, p. 10. These customers would be aware, in connection with their termination (whether voluntarily or at the SVT Supplier's behest), that there is a grace period and a temporary stay requirement because Respondent would notify them of these facts. R. 57-58; Resp. Ex. F, p. 10. Moreover, these customers would be familiar with the enrollment and choice process by virtue of having participated in the Program. R. 61-62.

Regarding the so-called default supplier service, this is simply not a reasonable alternative under current Illinois law and policies. Staff stated that it "does not favor [this proposal] given the nature of gas unbundling in Illinois." Staff In. Br., p. 16. Assuming, *arguendo*, that the Atlanta Gas Light ("AGL") unbundling model is one that Illinois would wish to emulate, the default supplier model described in the material that Ms. Merola offered with her testimony does not translate well to Illinois law under its current laws and policies. To cite but a few examples, Respondent is not exiting the merchant function, as AGL was required to do by law. Resp. Ex. D, p. 8. Georgia had a process for assigning customers to marketers, so the notion of receiving supply service from an entity other than the utility was not simply an option for AGL customers, it was the only option. For a utility without a merchant function, there are obvious reasons why it would be ill-equipped and disinclined to fulfill a supplier of last resort role. Also, the agreements that Ms. Merola provided are not just with the utility but with the State of Georgia. The program is administered by the Georgia Public Service Commission. *See* New Power Ex. 1.0, “Request for Proposal for Interim Pooler.” Illinois lacks comparable procedures. Finally, there are circumstances under which the interim pooler need only use “best efforts” to serve firm customers. New Power Ex. 1.0, “Order Designating Interim Pooler,” page 4 of 6. Respondent certainly does not propose to provide anything less than firm service to its firm customers. Mr. Wear was correct when he characterized the default supply service as “not a viable alternative” (Resp. Ex. D, p. 7), and this partially developed proposal should be rejected.

III. Rider AGG, Aggregation Service

A. SVT Suppliers Receive Storage Rights Commensurate with Their Cost Contributions.

Currently under the Program, SVT Suppliers are required to deliver the Required Daily Delivery Quantity (“RDDQ”), as determined by Respondent each day. The RDDQ includes a storage component. Respondent proposed to introduce flexibility in the delivery obligation by providing SVT Suppliers with a tolerance based on the tolerance available to Respondent from the pipelines from which it takes service. Resp. In. Br., pp. 24-30. Additionally, SVT Suppliers would receive an amount of storage based on capacity available through base rate contributions and gas charge contributions, supported by the proposed Aggregation Balancing Gas Charge (“ABGC”). Resp. In. Br., pp. 51-53.

There are two general objections to these proposals. First, Staff argues that the tolerances should be larger because it claims that the assets used in determining the ABGC would support a larger tolerance. Staff In. Br., pp. 20-23. In a similar manner, GCI argued, and Dominion agreed, that Respondent should determine monthly delivery ranges for inventory, injections and withdrawals, rather than have specified tolerances. GCI In. Br., p. 12-16; Dominion In. Br., p. 3. New Power generally supported GCI's proposals. New Power In. Br., pp. 35-36. Second, New Power argued that SVT Suppliers should not be required to purchase any storage from Respondent. New Power In. Br., pp. 32-33. For the reasons set forth below and in Respondent's testimony and its Initial Brief (pages 27-32), these proposals should be rejected.

Also, two other points require a brief response. First, Staff alludes (Staff In. Br., pp. 19, 22) to its proposal to adjust the RDDQ based on heating degree days. For the reasons set forth on pages 24-27 of Respondent's Initial Brief, this ill-defined proposal should be rejected. Second, New Power (New Power In. Br., p. 33) states that Respondent's injection/withdrawal restrictions should be based on operational reasons. As Respondent explained, the storage component of the RDDQ is based entirely on operational considerations that dictate Respondent's own use of storage. Resp. Ex. D, pp. 9-10.

1. Delivery Tolerances and Storage Flexibility

Staff's proposal to provide larger delivery tolerances is based on two incorrect theories. One theory is that the ABGC charge is a basis for providing a larger tolerance. The other theory is that operational conditions that the

Commission approved for Nicor Gas have relevance in this proceeding. GCI's argument also relies heavily on the ABGC as support for greater storage flexibility.

Turning to the ABGC argument, the ABGC supports two features of service to SVT Suppliers, *viz*., additional days of storage and intra-day balancing. Staff's proposal to have it support a third function -- added delivery tolerance -- would result in the same assets being used redundantly and SVT Suppliers' service being subsidized by retail sales customers. Resp. Ex. G, pp. 6-7. Absent the ABGC, SVT Suppliers would receive only the storage days supported by the costs borne by Rider SVT customers in their base rates. For the current year, that is ten days. The ABGC would support, based on the current year, an additional fourteen days of storage. Resp. Ex. A., pp. 13-14. The ABGC also supports the balancing service that Respondent provides to SVT Suppliers. Unlike the large volume transportation programs under which suppliers bear some responsibility for balancing, Respondent, rather than the SVT Suppliers, assumes all responsibility for balancing under the Program. Staff's vague analogy to the large volume programs as support for a larger tolerance is thus inapposite. Staff In. Br., pp. 19-20.

Because it is not feasible to distinguish between the storage and balancing function of the assets that would underlie the proposed ABGC, Respondent did not propose to develop a discrete charge for the storage element of the ABGC and a discrete charge for the balancing element of the ABGC.

Resp. Ex. A, p. 14; Resp. Ex. B, pp. 6-7. The balancing service that SVT Suppliers receive consists of, *inter alia*, accommodating differences between (a) forecast and actual weather, (b) the consumption component of the RDDQ and actual consumption, and (c) actual hourly consumption and the uniform, hourly rate at which pipelines deliver gas to Respondent. Resp. Ex. G, p. 7. SVT Suppliers receive full value for the costs recovered through the ABGC -- additional storage and intra-day balancing. It is Respondent's firm transportation services from Natural Gas Pipeline Company of America ("Natural") that support daily and monthly tolerances, and Respondent presented compelling evidence that the appropriate tolerances based on those assets are 3% (daily) and 1% (monthly).

Turning to GCI's proposal, it is the daily and intra-day nature of balancing service that undermines the proposal to have a monthly set of restrictions within which SVT Suppliers would act. For example, were SVT Suppliers on any day to over-deliver by the full extent of the proposed 10% tolerance or take full advantage of the monthly flexibility available under GCI's proposal and only one-fifth of this gas was delivered on Natural's system, the deliveries would overwhelm by a factor of ten the tolerance available to Respondent on Natural's system. The fact that this discrepancy may be corrected later in the month does not alleviate the balancing problems that would occur on that day. To address the daily imbalance, Respondent would need to turn to its balancing and no-notice services to support the disproportionate over-delivery. Far from being "ironic," as Staff's brief claims (Staff In. Br., p. 22), this is a perfect example of a higher tolerance or greater storage flexibility allowing SVT Suppliers to use the same set of assets redundantly, at the expense of retail sales customers. Resp. Ex. D, p. 5. Staff's opinion that this is a worst case scenario (Staff In. Br., p. 22) completely ignores the economic factors that drive suppliers' delivery decisions. Respondent's experience with its large volume programs shows how strongly market forces influence supplier deliveries, and Respondent expects suppliers to behave as rational economic actors and act in unison in response to commodity price movements. Resp. Ex. G, p. 6. Indeed, that is what explains the great day-to-day delivery variability -- as little as 20% of system sendout and as much as 124% of system sendout on a day -- that Respondent sees under its large volume program. Resp. Ex. D, p. 13.

Turning to Staff's reference to the <u>Nicor Gas</u> case, as Respondent explained in its testimony and Initial Brief, the tolerance that Nicor Gas believes it can support is of no relevance to Peoples Gas. The Staff witness, Mr. Iannello, agreed that operational and reliability considerations drove Nicor Gas' proposed tolerance. R. 243. Moreover, the specific tolerance proposed by Nicor Gas and approved by the Commission is not even discussed in the <u>Nicor Gas</u> order, other than indirectly in a discussion of whether greater storage flexibility of the sort proposed by GCI should be adopted. <u>Nicor Gas</u>, slip op., pp. 57-59. In other words, the <u>Nicor Gas</u> order provides no support whatsoever for a higher tolerance for Peoples Gas.

2. Amount of Storage

New Power proposed that SVT Suppliers not be required to purchase storage from Respondent. New Power In. Br., pp. 32-33. The proposal is flawed in two significant ways. First, Rider SVT customers purchase some storage through their base rates. Outside of a general rate case proceeding to unbundle the storage costs from Rates 1 and 2 and redesign those service classifications, the Rates 1 and 2 customers are entitled to the quantity of storage bundled in their rates and participating in the Program should not deprive them of that service. Resp. Ex. C, p. 18. The second category of storage available to Program participants is through the ABGC. As discussed above, the ABGC supports both balancing and storage services, and the two are intertwined. It would not be feasible to unbundle the storage piece from the balancing piece.

Second, New Power's proposal to use interstate storage directly to support its service to customers behind the citygate has two major problems. One, facilitating the integration of third party storage services with Respondent's services would require access to reliable, real-time consumption information. Absent such metering, neither Respondent nor the pipeline could distinguish how much balancing and storage was provided by the pipeline and how much was provided by Respondent. Two, as pipelines and the Federal Energy Regulatory Commission have recognized, specific business rules and contractual arrangements need to be in place for third party balancing for end use customers to function. Resp. Ex. D, pp. 14-15. Nothing prevents New Power from purchasing pipeline services, and charging customers for those services, to supplement what is available under the Program. However, as a substitute for the services included with the Program, New Power's proposal is not feasible and should be rejected.

Regarding New Power's comment that Peoples Gas should not double collect for storage (New Power In. Br., p. 33), Peoples Gas would not "double collect" for storage under its proposals. Through the base rates and the ABGC it would recover the costs of storage associated with service under the Program. An SVT Supplier's decision to purchase additional storage does not result in any "double" collection by Peoples Gas, as Peoples Gas has nothing to do with the SVT Supplier's decision and receives nothing in connection with that decision. At most, it may mean that a customer pays for additional storage if the SVT Supplier chooses to purchase third party storage and pass the costs along to customers.

B. Respondent's Proposed Imbalance Resolution Mechanism Is Appropriate.

Consistent with its current Program, Respondent proposed that imbalances be resolved at the conclusion of the month in which they occur. Changes to Rider AGG were needed to address the introduction of daily and monthly tolerances and the associated daily activity. The proposed imbalance and cash-out charges create appropriate incentives for daily supply management and compliance with Rider AGG. The proposed changes to Respondent's proposal, such as a relatively flat schedule for imbalance charges, imbalance carry forward options and trading (Staff In. Br., pp. 24-26; GCI In. Br., pp. 18-22; Dominion In. Br., pp. 3-4, 10-11; New Power In. Br., p. 35) would introduce inappropriate pricing mismatches, unnecessary administrative complexity and additional costs. Resp. Ex. C, pp. 16-18. Those proposals should be rejected. Resp. In. Br., pp. 32-38. Respondent addressed these issues at length in its testimony and Initial Brief and will not repeat those arguments here. Moreover, to the extent Staff and intervenors cite the Nicor Gas order for support, nothing in that order addresses Nicor Gas' proposed imbalance charges or imbalance resolution mechanisms. It is not evident that imbalance resolution was a contested issue in the case. Nicor Gas provides no useful precedent on this issue.

Respondent will, however, respond briefly to some erroneous statements in Staff and intervenor briefs. First, Staff asserts that, when there are concerns that suppliers might shift deliveries to more lucrative markets, "Staff recognizes that the Company can always declare a critical day." Staff In. Br., p. 26. Respondent cannot "always" declare a critical day. The declaration of a critical day is based on operational criteria, not economic criteria. Additionally, a critical day must be declared two hours prior to the nomination deadline, so suppliers know whether a critical day is in effect when they make nominations. *See, e.g.*, Resp. Ex. 1, Rider AGG, page 1 of 13, Sec. A; Respondent's Schedule of Rates, Rider SST, Section A. The ability to declare a critical day is not a reliable tool for tempering economic incentives. Respondent's proposed imbalance charges are such a tool.

Second, GCI asserted that by using certain services available from Natural, "shippers are always in balance under their FTS arrangement because any differences between nominated deliveries on behalf of the shipper and actual deliveries to the shipper are cured through no-notice storage injections and withdrawals.” GCI In. Br., p. 19. That statement is nonsense. No-notice services are not an infinite well from which shippers can draw. Those services, such as Natural’s Rate Schedule DSS, have numerous restrictions on the injection, withdrawal and transportation rights that, under some circumstances, could bring those rights to zero. Moreover, Natural is not the only pipeline serving Respondent. In other words, Respondent does not and cannot rely solely on services with Natural to balance its system. As new pipelines interconnect with Respondent, there have been significant reductions in the amounts of gas delivered on Natural, and this makes balancing using those assets more difficult. Resp. Ex. G, p. 8.

Third, GCI claimed that Mr. Wear was wrong to state that the value of interstate capacity could not necessarily be recovered through capacity release because of price caps. GCI cited the removal of the price cap for capacity release in Order No. 637. GCI In. Br., p. 21. GCI’s statement is misleading, as it is only part of the story. In Order No. 637, the FERC implemented a two-year experiment to remove the price cap on certain capacity release transactions. The experiment ends September 30, 2002. Moreover, the experiment extends only to short-term releases. Regulation of Short-Term Natural Gas Transportation Services, and Regulation of Interstate Natural Gas Transportation Services (Order No. 637), III FERC Stats. & Regs. ¶31,091 at p. 31,279 (2000); Order on Rehearing (Order No. 637-A), 91 FERC ¶61,169 (2000). Also, as Mr. Wear pointed out, very few marketers make use of capacity release to realize the value of transportation capacity. They realize that value through bundled transactions in which the value of the capacity and the commodity are melded. Hence, Respondent's support for its 50¢ non-critical day charge is valid.

C. Respondent's Proposed Rider AGG Charges Are Cost-Based and Reasonable.

1. Rider AGG and LDC Billing Option Charges.

Respondent showed, and Staff witness Terrie L. McDonald concurred, that Respondent's proposed Rider AGG charges are cost-based and supported in the record. These charges are the existing one-time Application Charge ($2,000), the monthly Aggregation Charge (an existing $200 per pool charge and a $1.25 per account charge that Respondent proposed to reduce from $2.00) and the Customer Pool Activation Charge (an existing $10 per customer added to a pool). Additionally, Respondent showed, and Ms. McDonald concurred, that the proposed LDC Billing Option Charges are cost-based and supported in the record. Those charges consist of a per bill charge ($0.50) and a per line charge for certain optional features ($0.02 per charge line in excess of five and $0.01 per message line). As explained in Respondent's Initial Brief, only Respondent and Staff conducted any cost analyses of these charges. Resp. In. Br., pp. 39-42; *also see* Staff In. Br., pp. 30-32.

Mere complaints that the charges are "unreasonable" or "barriers to entry" (New Power In. Br., pp. 29-32) or that they provide Respondent with a "competitive advantage" (GCI In. Br., p. 7) are no substitute for a cost of service analysis. Accordingly, this Reply Brief will be limited to refuting two specific complaints about the charges. First, GCI and New Power object to the inclusion of customer education costs in the charges and contend that all customers should bear such costs. GCI In. Br., p. 6; New Power In. Br., pp. 29-32. Second, GCI recommended that the administrative charges be eliminated because of alleged storage inventory carrying cost savings, non-cost-based reasons and "other cost savings that are not readily identifiable." GCI In. Br., p. 9. Third, GCI recommended that the per bill charge for the LDC Billing Option be reduced for postage charges which they believe are not incremental but already included in rate base.

First, Respondent showed that it is reasonable to collect Program education costs from the SVT Suppliers participating in the Program. If the SVT Suppliers choose to pass that cost along to their customers, that is their decision. Respondent also notes that Ms. McDonald agreed that her analysis in support of the charges also considered that the education costs would be recovered from Program participants. R. 209. The Program gives additional customers an opportunity to choose an alternative supplier, and it gives SVT Suppliers a new class of customers from whom to solicit business. The education programs better prepare these customers to select from among the SVT Suppliers. Respondent is financially indifferent as to whether customers participate in the Program or select an SVT Supplier, so it would not be appropriate for Respondent to bear education costs. Resp. Ex. C, p. 37. While non-participating customers may realize some benefit from the education program, their benefit is certainly more tangential than that of the SVT Suppliers and the customers who opt to take service from those SVT Suppliers.

Second, the issue of storage carrying costs will be addressed in Section III.C.2, *infra*. Regarding the non-cost based reasons and the unidentified cost savings, those tenuous assertions offer no legitimate basis for reducing or eliminating the cost-based Rider AGG charges. The non-cost based reasons are little more than an argument that more SVT Suppliers would participate in the Program if they did not have to pay the costs associated with the Program. While that may be true, it is hardly a reason for Respondent and its customers to subsidize the Program. The idea that the charges give Respondent a "competitive advantage" is odd because Respondent would not compete for these customers; Respondent earns the same profit whether a customer takes bundled sales or distribution-only service. The charges simply recover incremental costs of the Program. Resp. Ex. C, p. 11; R. 278-279.

Regarding the "other savings" that are not readily identifiable, one need only turn this argument on its head to see the absurdity of it. Were Respondent to make a claim for other costs that are not readily identifiable, it is a virtual certainty that neither Staff nor intervenors would support the recovery of these phantom costs. Likewise, phantom "savings" should not offset real costs. Regarding the one example given by GCI -- uncollectible expenses -- it is not logical to assume that customers choosing to participate in the Program will cause a proportionate (or any) reduction in Respondent's uncollectible expense. The SVT Suppliers have no obligation to serve customers. They can choose which customers to serve. Nothing prevents them from rejecting customers for credit reasons or terminating service to non-paying customers. Resp. Ex. F, p.

31. If an SVT Supplier nonetheless experiences an uncollectible rate comparable to that of a regulated utility with service obligations and rules governing suspension and termination of service, one can only conclude that it is that SVT Supplier's business decision to assume those risks and not a source of savings that Respondent can count on realizing.

Third, GCI's proposal to reduce the LDC Billing Option per bill charge from $0.50 to $0.25 ignores the substantial under-recovery that Respondent will experience for this service. Staff recognized that there was such an under-recovery. ICC Staff Ex. 2.0, p. 14. Respondent showed that its $0.50 per bill charge for its LDC Billing Option significantly under-recovers its revenue requirement for offering the service. Specifically, over a five-year period, Respondent will experience a net revenue shortfall of $1.3 million under its LDC Billing Option. This results from Respondent's proposed charge of $0.50 per bill being less than its revenue requirement of $0.88 per bill, resulting in a per bill deficit of $0.38. Resp. Ex. 2. In addition, GCI states in error that Respondent's per bill charge inappropriately recovers $0.25 per bill in postage costs. In fact, postage costs of $0.26 per bill were reduced by 50%, resulting in $0.13 in postage costs being included in the per bill charge. Even if the Commission were to agree with GCI's flawed recommendation, reducing Respondent's revenue requirement by the appropriate postage amount would result in a net revenue requirement of $0.75 per bill ($0.88 – $0.13), which is $0.25 greater than Respondent's proposed rate of $0.50 per bill.

2. Alleged Storage Inventory Carrying Cost Savings

Staff and GCI compute what they believe to be storage inventory carrying cost savings that Respondent will realize as customers participate in the Program. Staff In. Br., pp. 7-14; GCI In. Br., pp. 8-12. Respondent addressed this issue at length in its Initial Brief and showed that Staff's and GCI's proposed adjustments are unlawful single-issue ratemaking. Resp. In. Br., pp. 43-46. Alternatively, Respondent showed that, if the Commission disregards the single issue ratemaking obstacle and determines that it should impose an adjustment, the proper way to adjust base rate costs is by using base rate data. Resp. In. Br., pp. 46-51. Nothing in Staff's or GCI's initial briefs undercuts Respondent's arguments. Accordingly, in this Reply Brief, Respondent will respond only to four specific issues raised in the initial briefs, *viz*., (1) Staff's contention that weather-normalized data should be used to develop an inventory percentage figure (Staff In. Br., p. 11); (2) Staff's use of the rate case allowed rate of return in its calculation (Staff In. Br., pp. 12-13); (3) GCI's contention that 11.1¢ per therm does not reflect "the storage inventory costs paid by retail sales customers." (GCI In. Br., p. 10); and (4) Staff's misleading statements about revenues from the Program (Staff In. Br., p. 7).

a. Weather Normalized Data

Staff argued that twenty years of historical, weather-normalized data should be used to compute the inventory percentage in its calculation of savings. It cited cross-examination of Respondent's witness Valerie H. Grace as partial support for this argument, and, in so doing, either misrepresents or misunderstands her testimony. In her pre-filed testimony, Ms. Grace explained that an objective and reliable method of determining weather normalized historical storage data is not feasible for many reasons. In addition to weather, she explained that factors affecting storage use include operational considerations such as differences between actual and forecast demand, daily and monthly variations in transportation customers' deliveries to Respondent, physical limitations associated with Respondent's storage field and differing contractual and tariff requirements associated with purchased services. Computing weather-normalized data in the manner proposed by Staff would require Respondent to determine how weather would have affected these factors, including, for example, what daily and monthly prices might have been, what the difference between actual and forecast demand might have been and how transportation customers' deliveries would have changed. Moreover, in December 1993, when pipelines serving Respondent completely exited the merchant function, the purchased storage services available from the pipelines changed significantly. Using data from prior to that period, as Staff would require, would affect the comparability of data. Resp. Ex. H, p. 4. In short, it would not be practical to compute a weather normalized storage figure, particularly for twenty years. Instead, Respondent used recent actual historical data from a warmer than normal and from a colder than normal year to determine a reasonable proxy for storage activity under normal weather conditions. Resp. Ex. H, pp. 4-5; Resp. Ex. E, p. 5.

The cross-examination testimony cited by Staff simply does not support its position. Ms. Grace agreed that Respondent uses weather normalized data in a rate case. She then explained that:

> Q. Does the Company use weather normalized data in rate case proceedings?
> A. Yes, we do.
> Q. Is that figure calculated in the same way as it would be calculated in this proceeding?
> A. I'm not quite sure how you're proposing to calculate it in this proceeding.
> Q. I'm sorry. Is weather normalization done the same way in a rate case proceeding as the Company -- weather normalizes for purposes of this proceeding?
> A. In a rate case, typically, you're looking at a test year, which is a future year. In this proceeding, Staff is proposing that we do a 20-year historical normalization. So from that perspective, <u>no</u> <u>it's</u> <u>not</u> <u>the</u> <u>same</u>.

(emphasis added) R. 29. In other words, the fact that Respondent can present weather normalized data for purposes of a future test year has nothing to do with whether actual data from twenty historical years can be weather normalized.

In response to Staff's query about why Respondent cannot calculate a weather normalized figure for twenty years when, according to Staff, it did so for a few years in coming up with its 53% proxy (Staff In. Br., p. 11), the simple answer is that Respondent did not calculate weather normalized storage data. As explained in Ms. Grace's rebuttal testimony, Respondent took <u>actual</u> data from a recent warmer than normal year (2000) and a recent colder than normal year (1997) and extrapolated to produce a 53% proxy for what may have happened in a normal year. Resp. Ex. E, p. 5. No normalization took place, nor, for the reasons explained by Ms. Grace, would it have been feasible or practical to do so.

As to Staff's reference to the thirty-year historical time periods that relate to normal weather determinations (Staff In. Br., p. 11), that is irrelevant. Thirty years of actual data are used by the National Weather Forecast Office of the United States Department of Commerce's National Oceanic Atmospheric Administration ("NOAA") to establish what constitutes "normal" weather. In other words, the Company is not using thirty years of data or normalizing thirty years of data; it simply uses the data developed by NOAA as its definition of "normal."

As there are no practical solutions in the record to resolve the problems identified by Ms. Grace, there is no basis for adopting Staff's proposal.

b. Carrying Charge Rate

Staff noted that it considered three possible carrying charge rates, including short-term and long-term interest rates. It considered the allowed rate of return from Respondent's last rate case to be a "strong and well-documented benchmark." Staff In. Br., p. 12. On cross-examination, its witness Dennis L. Sweatman professed not to have any particular definition of short-term or long-term in mind when he used those terms in his testimony. R. 218-219. He did, however, agree that buying gas in the summer and selling it in the immediately following winter would produce a different cost of borrowing than buying gas in the summer and selling it three years later. R. 220. He also agreed that there are published sources of short-term interest rates and he would imagine that is also true for long-term rates. R. 220-221.

Staff's testimony and initial brief provided no compelling support for using Respondent's rate of return to determine storage inventory carrying costs. Respondent showed that a one-year LIBOR rate (whether Mr. Sweatman would call that short- or long-term is immaterial) reflects Respondent's actual borrowing costs. It is certainly a "documented" benchmark, as it is published daily in The Wall Street Journal. Resp. Ex. H, pp. 6-7. Moreover, short-term financing is what Staff and GCI are describing in their proposed adjustments -- buying and selling gas associated with storage. Resp. Ex. E, p. 6. It is clear that the gas that SVT Suppliers inject into storage is fully withdrawn each withdrawal period. Resp. Ex. 1, Rider AGG, Page 2 of 13, definitions of "Monthly Storage Activity" and of "Pool Maximum Storage Quantity". Mr. Sweatman agreed that this type of purchase and sale activity would be associated with a different interest rate than gas that stayed in storage for an extended period. R. 220. In other words, if the Commission imposes a storage inventory carrying cost adjustment factor on Respondent and if it uses current gas costs in the calculation, then it should pair those current gas costs with current interest rates. Resp. Ex. E, p. 6; Resp. Ex. H, pp. 6-7.

c. Cost of Gas

GCI claimed that 11.1¢ per therm does not reflect "the storage inventory costs paid by retail sales customers." GCI In. Br., p. 10. In fact, that is precisely what the 11.1¢ reflects. This cost is derived from the storage inventory costs included in Respondent's base rates in its most recent rate case, Docket No. 95-0032. The figure is produced by dividing rate case top gas storage inventory costs by therms of top gas inventory. That is the cost of inventory that Respondent recovers from and that its customers pay through their base rates. Resp. Ex. E, p. 6; Resp. Ex. H, pp. 5-6. GCI is correct that this is not the way to "determine gas costs." GCI In. Br., p. 10. GCI's observation, while correct, is irrelevant, because, as GCI then acknowledges, the issue is inventory costs and not current gas costs. Staff had similarly claimed that savings are realized by reduced storage inventory over time and not related to day-to-day purchasing activity. Staff. In. Br., pp. 3-4. Accordingly, if, notwithstanding the single issue ratemaking issue, the Commission imposes a storage inventory carrying cost adjustment factor on Respondent and does so using the correct base rate approach, 11.1¢ is the cost of gas that should be used in that calculation to properly match a current gas cost with a current carrying charge rate.

d. Revenues

Staff states that the Company's five-year analysis indicates that the Program will generate net positive revenues beginning in 2003. Staff In. Br., p. 7. Staff's statement is misleading. Staff's statement implies that the alleged savings would result in significant net revenues for the Company, when, in fact, the opposite is true. Respondent showed that, based on the Company's estimate of any credit that may be required by the Commission, the Company would experience a net revenue shortfall of $693,000 through 2005 and would experience ongoing annual Program expenses of $992,000. Respondent also showed that, based on Mr. Sweatman's proposed cost of gas and a short-term interest rate, the Company would experience a net revenue shortfall of $784,000 through 2005 and would experience ongoing annual Program expenses of $992,000. Therefore, even if one were to accept the flawed position that savings would result from reduced storage inventory carrying charges, such savings do not warrant a credit as the Company is still projected to experience a revenue shortfall. Resp. Ex. E, pp. 9-10; Resp. Exs. 7 and 8.

D. The Commission Should Not Require Respondent to Include a "Standards of Conduct" in Rider AGG.

Staff argued that the Commission should require Respondent to include "Standards of Conduct" in its Rider AGG. Staff In. Br., pp. 28-30. GCI offered the half-hearted endorsement that the standards would be "better than nothing." GCI In. Br., p. 23. For the reasons set forth on pages 53-56 of its Initial Brief, Respondent should not be compelled to act as a regulator and enforce amorphous standards for which it lacks both access to information and the authority to enforce. Respondent has included in Rider AGG only conditions that it believes it will have the ability to enforce. It did not seek to take on a policing role of SVT Suppliers' marketing efforts. The Standards of Conduct should be rejected.[3]

E. The Performance Assurance Measure Proposed by Respondent Is Reasonable.

Staff opposed Respondent's existing tariff provision governing the provision of a performance assurance by SVT Suppliers. Staff In. Br., pp. 27-28. In place of a flexible measure that would reflect changing market conditions, Staff

[3] Respondent notes that Senate Bill 694 was recently passed by the General Assembly. If signed into law by the Governor, this legislation would give the Commission authority to regulate alternative retail gas suppliers serving residential customers. Such regulation, not the proposed Standards, is the proper approach for addressing Staff's concerns.

proposed an arbitrary $2.00 per therm of Maximum Daily Quantity. To the extent that the $2.00 is based on what the Commission approved for Nicor Gas, Respondent notes that the $2.00 performance assurance is nowhere discussed in the Nicor Gas order, and that order gives no support for Staff's proposal. As to Staff's gratuitous comment that Respondent's proposal could favor its affiliate, there is no evidence whatsoever that different measures of performance assurances are applied to different suppliers, and Staff is simply indulging in *post hoc* rationalization of its unsupported $2.00 figure. However, Staff's last minute concern could easily be addressed by tariff language to the effect that the same measure of performance assurances will apply to all SVT Suppliers. For the reasons set forth on pages 56-57 of its Initial Brief, Respondent's proposed performance assurance language should be adopted.

IV. Terms and Conditions of Service

Respondent's proposed "Operational Integrity" provision is an important tool for Respondent to operate its system efficiently and safely, given the increasing amount of gas delivered to its system by third parties. Resp. Ex. B, pp. 3-4. New Power raised three concerns: (a) there should be at least 24 hours notice; (b) it should not be invoked for economic reasons; and (c) it should apply to Respondent. New Power In. Br., p. 34.

Regarding the amount of notice, notice is provided two hours before the nomination deadline, which is over 24 hours before the start of the gas day to which it would apply. If New Power is seeking 24 hours notice before the nomination deadline, that would substantially defeat the purpose of the provision.

Operational conditions close to the deadline for the affected gas day would form the best basis for tailoring the requirement to those conditions. Resp. Ex. D, p. 15. Two hours before the nomination deadline is also when notice of a critical day and other important notices are given. R. 161.

Regarding the basis for imposing operational limits, the proposed provision states that its purpose is "to maintain the safe and efficient operation of its system in a cost effective manner, … ." This is essentially a statement of Respondent's statutory obligation and requires no embellishment. 220 ILCS 5/8-401.

Finally, Respondent repeatedly stated that the provision would be applied to its own deliveries. Resp. Ex. B, p. 3; Resp. Ex. D. p. 16; R. 161, 162. This basic non-discrimination obligation is little more than a statement of Respondent's statutory obligation and requires no embellishment in the tariff. 220 ILCS 5/8-101.

V. Rider 2, Gas Charge

There are no issues pertaining to Rider 2 that need to be addressed in this Reply Brief, but Respondent wishes to clarify two points. First, New Power cited Rider 2 with respect to several comments about imbalance charges and tolerances. New Power In. Br., pp. 35-36. These provisions are not included in Rider 2. Their relationship to Rider 2 is limited to the fact that revenues from the imbalance charges are flowed through to customers in their entirety through Rider 2. Resp. Ex. A, p. 18. New Power's issues are addressed in Sections III.A.1 and III.B, *supra*.

Second, Dominion proposed a new definition in Rider 2 if the Commission were to order Respondent to include a rate-ready billing service as part of its LDC Billing Option. Dominion In. Br., p. 11. Assuming, *arguendo*, that the Commission ordered Respondent to provide a rate-ready billing service, Respondent disagrees that any elements of this service should be reflected in its Rider 2. Rider 2 consists exclusively of charges that Respondent determines and charges its customers. Adding a charge that another party determines and that would be billed in connection with Riders SVT and AGG would not fit in this rider. If tariff changes are needed in connection with the LDC Billing Option, they should be included in Rider SVT or AGG.

VI. Other Issues

A. Customer Education

Staff proposed that the Commission direct Respondent to conduct at least one workshop to address customer education. Staff In. Br., p. 33. New Power also discussed customer education. New Power In. Br., p. 37. Respondent does not oppose conducting one customer education workshop to solicit input from interested parties, but it reiterates its concerns that it not be compelled to implement costly education initiatives without cost recovery. Resp. Ex. C, pp. 36-37; Resp. Ex. F, pp. 27-28. Respondent notes that this would likely delay when educational materials could be sent to customers.

B. Enrollment Methods

Staff and NEM advocated allowing enrollment by internet or telephone. Staff also proposed that, for residential customers, SVT Suppliers be required to obtain a "letter of agency." Staff In. Br., pp. 33-34; NEM In. Br., p. 5. Respondent's proposal would not prohibit any means of enrollment, including by internet or telephone. By leaving the tariff silent, this would enable SVT Suppliers to use any means of enrollment, as long as Respondent could verify that the SVT Supplier had the appropriate agency rights. Resp. Ex. C, p. 21. If the Commission directs Respondent to include specific means of enrollment in the tariff, Respondent urges the Commission to make clear that the list is not exhaustive. Respondent does not oppose the letter of agency requirement. Resp. Ex. C, p. 21.

C. Third Party Monies

Staff stated that third party monies, *e.g.*, LIHEAP, should be applied to (a) Respondent's arrearages, (b) SVT Supplier's arrearages, (c) Respondent's current charges, and (d) SVT Supplier's current charges. Staff In. Br., p. 34. Respondent concurs with this proposal. Resp. Ex. C, p. 34.

D. Credit Information

Staff stated that Respondent should not provide credit or payment histories in response to authorized SVT Supplier's requests. Staff In. Br., pp. 34-35. Respondent confirmed that this is its policy, but notes that an SVT Supplier using the LDC Billing Option would be aware when payments are applied to arrearages. Resp. Ex. C, p. 35.

E. Notice Letters

Staff recommended that notification letters be sent to Rider SVT customers. Staff In. Br., p. 35. Respondent confirmed that it sends such letters to advise customers of any change in status under the Program, such as enrollment, supplier switches and termination. Resp. Ex. C, pp. 21-22.

F. Large Volume Program

The IIEC argued that the instant proceeding should not serve as a vehicle to make changes to the large volume transportation riders. IIEC In. Br., *passim*. Respondent proposed no changes to its large volume transportation program riders, and it agrees that no changes to those riders should be ordered as part of this proceeding. Respondent referred to its large volume program to illustrate its experience with certain elements of its transportation programs. *See, e.g.*, Resp. Ex. G, pp. 4-5.

WHEREFORE, The Peoples Gas Light and Coke Company respectfully submits its Reply Brief in this proceeding and requests that the Commission approve the amendments to and expansion of the Choices For You$^{\text{sm}}$ Program as filed by Respondent, with certain revisions proposed by Respondent during the proceeding. Respondent's proposals are fully supported by the record.

Respectfully submitted,

The Peoples Gas Light and Coke Company

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Dated at Chicago this
4th day of December, 2001

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

Illinois Commerce Commission On Its Own Motion	)	
v.	)	Docket No. 01-0470
The Peoples Gas Light and Coke Company	)	
Proposal to revise Riders SVT, AGG Rider 2, Terms and Conditions, and Table of Contents.	)	

NOTICE OF FILING AND CERTIFICATE OF SERVICE

To: Service List

PLEASE TAKE NOTICE that on this 4th day of December, 2001, I have filed with the Chief Clerk of the Illinois Commerce Commission, the Reply Brief of The Peoples Gas Light and Coke Company, a copy of which is hereby served upon you by e-mail and United States Mail on December 4, 2001.

By: /S/ MARY KLYASHEFF
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